

RadNet, Inc.  
Form 10-Q  
May 10, 2011

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-19019

RadNet, Inc.

(Exact name of registrant as specified in charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3326724  
(I.R.S. Employer  
Identification No.)

1510 Cotner Avenue  
Los Angeles, California  
(Address of principal executive offices)

90025  
(Zip Code)

(310) 478-7808

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Edgar Filing: RadNet, Inc. - Form 10-Q

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                                                     |                                                       |                                                                                                          |                                                    |
|-----------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Large accelerated<br>filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated<br>filer <input type="checkbox"/><br>(do not check if a<br>smaller<br>reporting company) | Smaller reporting company <input type="checkbox"/> |
|-----------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

The number of shares of the registrant's common stock outstanding on May 5, 2011, was 37,319,725 shares.

---

---

---

## Table of Contents

## RADNET, INC.

## INDEX

| PART I – FINANCIAL INFORMATION |                                                                                                    | Page |
|--------------------------------|----------------------------------------------------------------------------------------------------|------|
| ITEM 1.                        | Condensed Consolidated Financial Statements                                                        |      |
|                                | Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010                      | 3    |
|                                | Condensed Consolidated Statements of Operations for the Three Months ended March 31, 2011 and 2010 | 4    |
|                                | Condensed Consolidated Statement of Equity Deficit for the Three Months ended March 31, 2011       | 5    |
|                                | Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010 | 6    |
|                                | Notes to Condensed Consolidated Financial Statements                                               | 8    |
| ITEM 2.                        | Management’s Discussion and Analysis of Financial Condition and Results of Operations              | 23   |
| ITEM 3.                        | Quantitative and Qualitative Disclosures About Market Risk                                         | 33   |
| ITEM 4.                        | Controls and Procedures                                                                            | 33   |
| PART II – OTHER INFORMATION    |                                                                                                    |      |
| ITEM 1.                        | Legal Proceedings                                                                                  | 34   |
| ITEM 1A.                       | Risk Factors                                                                                       | 34   |
| ITEM 2.                        | Unregistered Sales of Equity Securities and Use of Proceeds                                        | 34   |
| ITEM 3.                        | Defaults Upon Senior Securities                                                                    | 34   |
| ITEM 4.                        | Removed and Reserved                                                                               | 34   |
| ITEM 5.                        | Other Information                                                                                  | 34   |
| ITEM 6.                        | Exhibits                                                                                           | 34   |
| SIGNATURES                     |                                                                                                    | 35   |



PART I - FINANCIAL INFORMATION  
RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS EXCEPT SHARE DATA)

|                                                                                                                                                                                      | March 31,<br>2011<br>(unaudited) | December 31,<br>2010 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                        |                                  |                      |
| <b>CURRENT ASSETS</b>                                                                                                                                                                |                                  |                      |
| Cash and cash equivalents                                                                                                                                                            | \$259                            | \$627                |
| Accounts receivable, net                                                                                                                                                             | 104,666                          | 96,094               |
| Prepaid expenses and other current assets                                                                                                                                            | 16,300                           | 14,304               |
| Total current assets                                                                                                                                                                 | 121,225                          | 111,025              |
| <b>PROPERTY AND EQUIPMENT, NET</b>                                                                                                                                                   | <b>195,633</b>                   | <b>194,230</b>       |
| <b>OTHER ASSETS</b>                                                                                                                                                                  |                                  |                      |
| Goodwill                                                                                                                                                                             | 147,752                          | 143,353              |
| Other intangible assets                                                                                                                                                              | 57,165                           | 57,348               |
| Deferred financing costs, net                                                                                                                                                        | 14,956                           | 15,486               |
| Investment in joint ventures                                                                                                                                                         | 17,274                           | 15,444               |
| Deposits and other                                                                                                                                                                   | 2,577                            | 2,628                |
| Total assets                                                                                                                                                                         | \$556,582                        | \$539,514            |
| <b>LIABILITIES AND EQUITY DEFICIT</b>                                                                                                                                                |                                  |                      |
| <b>CURRENT LIABILITIES</b>                                                                                                                                                           |                                  |                      |
| Accounts payable and accrued expenses                                                                                                                                                | \$91,206                         | \$82,619             |
| Due to affiliates                                                                                                                                                                    | 3,051                            | 2,975                |
| Deferred revenue                                                                                                                                                                     | 1,382                            | 1,568                |
| Current portion of notes payable                                                                                                                                                     | 5,966                            | 8,218                |
| Current portion of deferred rent                                                                                                                                                     | 863                              | 745                  |
| Current portion of obligations under capital leases                                                                                                                                  | 7,787                            | 9,139                |
| Total current liabilities                                                                                                                                                            | 110,255                          | 105,264              |
| <b>LONG-TERM LIABILITIES</b>                                                                                                                                                         |                                  |                      |
| Deferred rent, net of current portion                                                                                                                                                | 10,366                           | 10,379               |
| Deferred taxes                                                                                                                                                                       | 277                              | 277                  |
| Line of credit                                                                                                                                                                       | 15,900                           | -                    |
| Notes payable, net of current portion                                                                                                                                                | 480,131                          | 481,578              |
| Obligations under capital lease, net of current portion                                                                                                                              | 4,276                            | 5,639                |
| Other non-current liabilities                                                                                                                                                        | 17,208                           | 18,850               |
| Total liabilities                                                                                                                                                                    | 638,413                          | 621,987              |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                                 |                                  |                      |
| <b>EQUITY DEFICIT</b>                                                                                                                                                                |                                  |                      |
| Common stock - \$.0001 par value, 200,000,000 shares authorized;<br>37,307,225 and 37,223,475 shares issued and outstanding at<br>March 31, 2011 and December 31, 2010, respectively | 4                                | 4                    |
| Paid-in-capital                                                                                                                                                                      | 163,591                          | 162,444              |
| Accumulated other comprehensive loss                                                                                                                                                 | (1,801 )                         | (2,137 )             |
| Accumulated deficit                                                                                                                                                                  | (243,717 )                       | (242,841 )           |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                      |           |   |           |   |
|--------------------------------------|-----------|---|-----------|---|
| Total Radnet, Inc.'s equity deficit  | (81,923   | ) | (82,530   | ) |
| Noncontrolling interests             | 92        |   | 57        |   |
| Total equity deficit                 | (81,831   | ) | (82,473   | ) |
| Total liabilities and equity deficit | \$556,582 |   | \$539,514 |   |

The accompanying notes are an integral part of these financial statements.

RADNET, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (IN THOUSANDS EXCEPT SHARE DATA)  
 (unaudited)

|                                                                  | Three Months Ended<br>March 31, |                  |
|------------------------------------------------------------------|---------------------------------|------------------|
|                                                                  | 2011                            | 2010             |
| NET REVENUE                                                      | \$146,217                       | \$124,178        |
| <b>OPERATING EXPENSES</b>                                        |                                 |                  |
| Cost of operations                                               | 115,828                         | 98,639           |
| Depreciation and amortization                                    | 13,921                          | 13,275           |
| Provision for bad debts                                          | 7,905                           | 7,677            |
| Loss on sale of equipment                                        | 259                             | 104              |
| Severance costs                                                  | 145                             | 132              |
| Total operating expenses                                         | 138,058                         | 119,827          |
| <b>INCOME FROM OPERATIONS</b>                                    | <b>8,159</b>                    | <b>4,351</b>     |
| <b>OTHER EXPENSES</b>                                            |                                 |                  |
| Interest expense                                                 | 12,915                          | 9,967            |
| Other income                                                     | (1,871)                         | -                |
| Total other expenses                                             | 11,044                          | 9,967            |
| <b>LOSS BEFORE INCOME TAXES AND EQUITY</b>                       |                                 |                  |
| IN EARNINGS OF JOINT VENTURES                                    | (2,885)                         | (5,616)          |
| Provision for income taxes                                       | (147)                           | (334)            |
| Equity in earnings of joint ventures                             | 2,224                           | 1,861            |
| <b>NET LOSS</b>                                                  | <b>(808)</b>                    | <b>(4,089)</b>   |
| Net income attributable to noncontrolling interests              | 68                              | 22               |
| <b>NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b> | <b>\$(876)</b>                  | <b>\$(4,111)</b> |
| <b>BASIC AND DILUTED NET LOSS PER SHARE</b>                      |                                 |                  |
| <b>ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b>          | <b>\$(0.02)</b>                 | <b>\$(0.11)</b>  |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>                       |                                 |                  |
| Basic and diluted                                                | 37,257,683                      | 36,363,946       |

The accompanying notes are an integral part of these financial statements.

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EQUITY DEFICIT  
(IN THOUSANDS EXCEPT SHARE DATA)  
(unaudited)

|                                                                                     | Common Stock |        | Paid-in    | Accumulated  | Accumulated              | Total                         | Noncontrolling | Total          |
|-------------------------------------------------------------------------------------|--------------|--------|------------|--------------|--------------------------|-------------------------------|----------------|----------------|
|                                                                                     | Shares       | Amount | Capital    | Deficit      | Other Comprehensive Loss | Radnet, Inc.'s Equity Deficit | Interests      | Equity Deficit |
| BALANCE - JANUARY 1, 2011                                                           | 37,223,475   | \$ 4   | \$ 162,444 | \$ (242,841) | \$ (2,137 )              | \$ (82,530)                   | \$ 57          | \$ (82,473)    |
| Issuance of common stock upon exercise of options/warrants                          | 83,750       | -      | 99         | -            | -                        | 99                            | -              | 99             |
| Stock-based compensation                                                            | -            | -      | 1,048      | -            | -                        | 1,048                         | -              | 1,048          |
| Dividends paid to noncontrolling interests                                          | -            | -      | -          | -            | -                        | -                             | (33 )          | (33 )          |
| Change in cumulative foreign currency translation adjustment                        | -            | -      | -          | -            | 30                       | 30                            | -              | 30             |
| Change in fair value of cash flow hedge from prior periods reclassified to earnings | -            | -      | -          | -            | 306                      | 306                           | -              | 306            |
| Net loss                                                                            | -            | -      | -          | (876 )       | -                        | (876 )                        | 68             | (808 )         |
| Comprehensive loss                                                                  | -            | -      | -          | -            | -                        | (540 )                        | 68             | (472 )         |
| BALANCE - MARCH 31, 2011                                                            | 37,307,225   | \$ 4   | \$ 163,591 | \$ (243,717) | \$ (1,801 )              | \$ (81,923)                   | \$ 92          | \$ (81,831)    |



**RADNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)**  
(Unaudited)

|                                                                                                                       | Three months ended<br>March 31, |            |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                                                       | 2011                            | 2010       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                           |                                 |            |
| Net loss                                                                                                              | \$(808                          | ) \$(4,089 |
| Adjustments to reconcile net loss to net cash provided by operating activities:                                       |                                 |            |
| Depreciation and amortization                                                                                         | 13,921                          | 13,275     |
| Provision for bad debts                                                                                               | 7,905                           | 7,677      |
| Equity in earnings of joint ventures                                                                                  | (2,224                          | ) (1,861   |
| Distributions from joint ventures                                                                                     | 2,504                           | 3,095      |
| Deferred rent amortization                                                                                            | 105                             | 359        |
| Amortization of deferred financing cost                                                                               | 748                             | 670        |
| Amortization of bond discount                                                                                         | 58                              | -          |
| Loss on sale of equipment                                                                                             | 259                             | 104        |
| Amortization of cash flow hedge                                                                                       | 306                             | -          |
| Stock-based compensation                                                                                              | 1,048                           | 819        |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in purchase transactions: |                                 |            |
| Accounts receivable                                                                                                   | (15,481                         | ) (8,071   |
| Other current assets                                                                                                  | (2,345                          | ) (1,426   |
| Other assets                                                                                                          | 51                              | (1,287     |
| Deferred revenue                                                                                                      | (186                            | ) -        |
| Accounts payable and accrued expenses                                                                                 | 9,335                           | 7,337      |
| Net cash provided by operating activities                                                                             | 15,196                          | 16,602     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                           |                                 |            |
| Purchase of imaging facilities                                                                                        | (6,343                          | ) (6,708   |
| Purchase of property and equipment                                                                                    | (15,616                         | ) (12,900  |
| Proceeds from sale of equipment                                                                                       | 235                             | -          |
| Purchase of equity interest in joint ventures                                                                         | (1,500                          | ) -        |
| Net cash used in investing activities                                                                                 | (23,224                         | ) (19,608  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                           |                                 |            |
| Principal payments on notes and leases payable                                                                        | (6,490                          | ) (5,538   |
| Deferred financing costs                                                                                              | (218                            | ) -        |
| Proceeds from, net of payments on, line of credit                                                                     | 15,900                          | -          |
| Payments to counterparties of interest rate swaps, net of amounts received                                            | (1,611                          | ) (1,581   |
| Distributions to noncontrolling interests                                                                             | (33                             | ) (18      |
| Proceeds from issuance of common stock upon exercise of options/warrants                                              | 99                              | 49         |
| Net cash provided by (used in) financing activities                                                                   | 7,647                           | (7,088     |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH                                                                               | 13                              | -          |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                                                             | (368                            | ) (10,094  |
| CASH AND CASH EQUIVALENTS, beginning of period                                                                        | 627                             | 10,094     |
| CASH AND CASH EQUIVALENTS, end of period                                                                              | \$259                           | \$-        |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                                               |                                 |            |
| Cash paid during the period for interest                                                                              | \$6,330                         | \$9,340    |

The accompanying notes are an integral part of these financial statements.

RADNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
(unaudited)

Supplemental Schedule of Non-Cash Investing and Financing Activities

We acquired equipment and certain leasehold improvements for approximately \$7.4 million and \$3.8 million during the three months ended March 31, 2011 and 2010, respectively, that we had not paid for as of March 31, 2011 and 2010, respectively. The offsetting amount due was recorded in our consolidated balance sheet under accounts payable and accrued expenses.

As discussed in Note 6, as a result of our debt refinancing completed on April 6, 2010, our interest rate swaps are no longer effective. Accordingly, all changes in their fair value after April 6, 2010 are, and will continue to be recognized in earnings as other income.

Detail of investing activity related to acquisitions can be found in Note 4.

RADNET, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

At March 31, 2011, we operated a group of regional networks comprised of 201 diagnostic imaging facilities located in six states with operations primarily in California, Maryland, Florida, Delaware, New Jersey and New York. We provide diagnostic imaging services including magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology, or X-ray, fluoroscopy and other related procedures. The Company's operations comprise a single segment for financial reporting purposes.

The unaudited condensed consolidated financial statements include the accounts of Radnet Management, Inc. (or "Radnet Management") and Beverly Radiology Medical Group III, a professional partnership ("BRMG"). The unaudited condensed consolidated financial statements also include Radnet Management I, Inc., Radnet Management II, Inc., Radiologix, Inc., Radnet Management Imaging Services, Inc., Delaware Imaging Partners, Inc., New Jersey Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. ("DIS"), all wholly owned subsidiaries of Radnet Management. All of these affiliated entities are referred to collectively as "RadNet", "we", "us", "our" or the "Company" in this report.

Accounting Standards Codification Section 810-10-15-14 stipulates that generally any entity with (a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or (b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity ("VIE"). We consolidate all voting interest entities in which we own a majority voting interest and all VIEs for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

Howard G. Berger, M.D. is our President and Chief Executive Officer, a member of our Board of Directors and owns approximately 14.5% of our outstanding common stock. Dr. Berger also owns, indirectly, 99% of the equity interests in BRMG. BRMG provides all of the professional medical services at the majority of our facilities located in California under a management agreement with us, and employs physicians or contracts with various other independent physicians and physician groups to provide the professional medical services at most of our other California facilities. We generally obtain professional medical services from BRMG in California, rather than provide such services directly or through subsidiaries, in order to comply with California's prohibition against the corporate practice of medicine. However, as a result of our close relationship with Dr. Berger and BRMG, we believe that we are able to better ensure that medical service is provided at our California facilities in a manner consistent with our needs and expectations and those of our referring physicians, patients and payors than if we obtained these services from unaffiliated physician groups. BRMG is a partnership of ProNet Imaging Medical Group, Inc. (99%), Breastlink Medical Group, Inc. (100%) and Beverly Radiology Medical Group, Inc. (99%), each of which are 99% or 100% owned by Dr. Berger. RadNet provides non-medical, technical and administrative services to BRMG for which it receives a management fee, per the management agreement. Through the management agreement and our relationship

with Dr. Berger, we have exclusive authority over all non-medical decision making related to the ongoing business operations of BRMG. Through our management agreement with BRMG we determine the annual budget of BRMG and make all physician employment decisions. BRMG has insignificant operating assets and liabilities, and de minimis equity. Through the management agreement with us, all of BRMG's cash flows are transferred to us. We have determined that BRMG is a variable interest entity, and that we are the primary beneficiary, and consequently, we consolidate the revenue and expenses of BRMG. BRMG recognized \$13.2 million and \$12.4 million of revenue, net of management service fees to RadNet, for the three months ended March 31, 2011 and 2010, respectively, and \$13.2 million and \$12.4 million of operating expenses for the three months ended March 31, 2011 and 2010, respectively. RadNet recognized \$49.1 million and \$41.7 million of net revenues for the three months ended March 31, 2011 and 2010, respectively, for management services provided to BRMG relating primarily to the technical portion of total billed revenue. The cash flows of BRMG are included in the accompanying consolidated statements of cash flows. All intercompany balances and transactions have been eliminated in consolidation.

The creditors of BRMG do not have recourse to our general credit and we do not believe other arrangements would expose us to material losses. However, BRMG is managed to recognize no net income or net loss and, therefore, RadNet may be required to provide financial support to cover any operating expenses in excess of operating revenues.

Aside from centers in California where we contract with BRMG for the provision of professional medical services, at the remaining centers in California and at all of the centers which are located outside of California, we have entered into long-term contracts with independent radiology groups in each area to provide physician services at those facilities. These third party radiology practices provide professional services, including supervision and interpretation of diagnostic imaging procedures, in our diagnostic imaging centers. The radiology practices maintain full control over the provision of professional services. The contracted radiology practices generally have outstanding physician and practice credentials and reputations; strong competitive market positions; a broad sub-specialty mix of physicians; a history of growth and potential for continued growth. In these facilities we enter into long-term agreements with radiology practice groups (typically 40 years). Under these arrangements, in addition to obtaining technical fees for the use of our diagnostic imaging equipment and the provision of technical services, we provide management services and receive a fee based on the practice group's professional revenue, including revenue derived outside of our diagnostic imaging centers. We own the diagnostic imaging equipment and, therefore, receive 100% of the technical reimbursements associated with imaging procedures. The radiology practice groups retain the professional reimbursements associated with imaging procedures after deducting management service fees. We have no financial controlling interest in the independent (non-BRMG) radiology practices; accordingly, we do not consolidate the financial statements of those practices in our consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles complete financial statements; however, in the opinion of our management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods ended March 31, 2011 and 2010 have been made. The results of operations for any interim period are not necessarily indicative of the results for a full year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto contained in our annual report on Form 10-K for the year ended December 31, 2010.

#### Significant accounting policies

As of the period covered in this report, there have been no material changes to the significant accounting policies we use, and have explained, in our annual report on Form 10-K for the fiscal year ended December 31, 2010.

#### Liquidity and Capital Resources

We had a working capital balance of \$11.0 million and \$5.8 million at March 31, 2011 and December 31, 2010, respectively. We had a net loss attributable to RadNet, Inc.'s common stockholders of \$876,000 and \$4.1 million for the three months ended March 31, 2011 and 2010, respectively. We also had an equity deficit of \$81.8 million and \$82.5 million at March 31, 2011 and December 31, 2010, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our existing debt and contractual obligations. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of

financing under credit arrangements with third parties.

Our business strategy with regard to operations focuses on the following:

- maximizing performance at our existing facilities;
- focusing on profitable contracting;
- expanding MRI, CT and PET applications;
- optimizing operating efficiencies; and
- expanding our networks.

On April 6, 2010, we completed a series of transactions which we refer to as our "debt refinancing plan" for an aggregate of \$585 million. As part of the debt refinancing plan, our wholly owned subsidiary Radnet Management, Inc. issued and sold \$200,000,000 in 10 3/8% senior notes due 2018 (the "senior notes"). All payments of the senior notes, including principal and interest, are guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future domestic wholly owned restricted subsidiaries. The senior notes were issued under an indenture, dated April 6, 2010, by and among Radnet Management, as issuer, RadNet, Inc., as parent guarantor, the subsidiary guarantors thereof and U.S. Bank National Association, as trustee, in a private placement that was not subject to the registration requirements of the Securities Act. The senior notes initially issued on April 6, 2010 in a private placement were subsequently publicly offered for exchange enabling holders of the outstanding senior notes to exchange the outstanding notes for publicly registered exchange notes with nearly identical terms.

In addition to the issuance of senior notes, the debt refinancing plan provided for the entry by Radnet Management entered into a new Credit and Guaranty Agreement with a syndicate of lenders (the "New Credit Agreement"), whereby Radnet Management obtained \$385,000,000 in senior secured first-lien bank financing, consisting of (i) a \$285,000,000, six-year term loan facility and (ii) a \$100,000,000, five-year revolving credit facility, including a swing line subfacility and a letter of credit subfacility (collectively, the "New Credit Facilities"). Radnet Management's obligations under the New Credit Agreement are unconditionally guaranteed by RadNet, Inc., all of Radnet Management's current and future wholly owned domestic subsidiaries as well as certain affiliates, including Beverly Radiology Medical Group III and its equity holders (Beverly Radiology Medical Group, Inc., BreastLink Medical Group, Inc. and ProNet Imaging Medical Group, Inc.). These New Credit Facilities created by the New Credit Agreement are secured by a perfected first-priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future wholly owned domestic subsidiaries.

In connection with the issuance of the outstanding notes and entering into the New Credit Agreement, Radnet Management used the net proceeds from the issuance of the outstanding notes and the New Credit Facilities created by the New Credit Agreement to repay in full its existing first lien term loan for \$242.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2012, and its second lien term loan for \$170.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2013.

At March 31, 2011, Radnet Management had \$200 million aggregate principal amount of senior notes outstanding, \$282.2 million of senior secured term loan debt outstanding and \$15.9 million outstanding under the revolving credit facility.

#### NOTE 2 — SUPPLEMENTAL GUARANTOR INFORMATION

The following tables present condensed consolidating financial information for: (a) RadNet, Inc. (the "Parent") on a stand-alone basis as a guarantor of the senior secured term loan due 2016 and the senior notes due 2018 ; (b) Radnet Management, Inc., the subsidiary issuer (the "Subsidiary Issuer") of the senior secured term loan due 2016 and the senior notes due 2018; (c) on a combined basis, the guarantor subsidiaries (the "Guarantor Subsidiaries") of the senior secured term loan due 2016 and the senior notes due 2018, which include all other 100% owned subsidiaries of the Subsidiary Issuer; (d) on a combined basis, the non-guarantor subsidiaries, which include joint venture partnerships of which the Subsidiary Issuer holds investments of 50% or greater, as well as BRMG, which we consolidate as a variable interest entity. Separate financial statements of the Subsidiary Issuer or the Guarantor Subsidiaries are not presented because the guarantee by the Parent and each Guarantor Subsidiary is full and unconditional, joint and several. In lieu thereof, the Parent includes the following:





**RADNET, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

March 31, 2011

(in thousands)

(unaudited)

|                                           | Parent      | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|-------------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>ASSETS</b>                             |             |                      |                           |                               |              |              |
| <b>CURRENT ASSETS</b>                     |             |                      |                           |                               |              |              |
| Cash and cash equivalents                 | \$-         | \$-                  | \$ 198                    | \$ 61                         | \$-          | \$ 259       |
| Accounts receivable, net                  | -           | -                    | 58,328                    | 46,338                        | -            | 104,666      |
| Prepaid expenses and other current assets | -           | 9,462                | 6,175                     | 663                           | -            | 16,300       |
| Total current assets                      | -           | 9,462                | 64,701                    | 47,062                        | -            | 121,225      |
| <b>PROPERTY AND EQUIPMENT, NET</b>        |             |                      |                           |                               |              |              |
|                                           | -           | 45,850               | 147,719                   | 2,064                         | -            | 195,633      |
| <b>OTHER ASSETS</b>                       |             |                      |                           |                               |              |              |
| Goodwill                                  | -           | 41,768               | 105,984                   | -                             | -            | 147,752      |
| Other intangible assets                   | -           | 115                  | 57,050                    | -                             | -            | 57,165       |
| Deferred financing costs, net             | -           | 14,956               | -                         | -                             | -            | 14,956       |
| Investment in subsidiaries                | (81,923 )   | 223,260              | 9,269                     | -                             | (150,606 )   | -            |
| Investment in joint ventures              | -           | -                    | 17,274                    | -                             | -            | 17,274       |
| Deposits and other                        | -           | 1,279                | 1,298                     | -                             | -            | 2,577        |
| Total assets                              | \$(81,923 ) | \$ 336,690           | \$ 403,295                | \$ 49,126                     | \$(150,606 ) | \$ 556,582   |
| <b>LIABILITIES AND EQUITY DEFICIT</b>     |             |                      |                           |                               |              |              |
| <b>CURRENT LIABILITIES</b>                |             |                      |                           |                               |              |              |
| Intercompany                              | \$-         | \$(143,373 )         | \$ 111,376                | \$ 31,997                     | -            | \$-          |
| Accounts payable and accrued expenses     | -           | 44,804               | 39,695                    | 6,707                         | -            | 91,206       |
| Due to affiliates                         | -           | -                    | 3,051                     | -                             | -            | 3,051        |
| Deferred revenue                          | -           | 2,975                | 2,991                     | -                             | -            | 5,966        |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                                          |             |           |           |           |              |           |
|----------------------------------------------------------|-------------|-----------|-----------|-----------|--------------|-----------|
| Current portion of notes payable                         |             |           |           |           |              |           |
| Current portion of deferred rent                         | -           | 412       | 451       | -         | -            | 863       |
| Obligations under capital leases                         | -           | 4,739     | 2,694     | 354       | -            | 7,787     |
| Total current liabilities                                | -           | (90,443 ) | 161,640   | 39,058    | -            | 110,255   |
| <b>LONG-TERM LIABILITIES</b>                             |             |           |           |           |              |           |
| Deferred rent, net of current portion                    | -           | 6,081     | 4,285     | -         | -            | 10,366    |
| Deferred taxes                                           | -           | -         | 277       | -         | -            | 277       |
| Line of credit                                           | -           | 15,900    |           |           |              | 15,900    |
| Notes payable, net of current portion                    | -           | 475,185   | 4,946     | -         | -            | 480,131   |
| Obligations under capital leases, net of current portion | -           | 2,756     | 813       | 707       | -            | 4,276     |
| Other non-current liabilities                            | -           | 9,134     | 8,074     | -         | -            | 17,208    |
| Total liabilities                                        | -           | 418,613   | 180,035   | 39,765    | -            | 638,413   |
| <b>EQUITY DEFICIT</b>                                    |             |           |           |           |              |           |
| Total Radnet, Inc.'s equity deficit                      | (81,923 )   | (81,923 ) | 223,260   | 9,269     | (150,606 )   | (81,923 ) |
| Noncontrolling interests                                 | -           | -         | -         | 92        | -            | 92        |
| Total equity deficit                                     | (81,923 )   | (81,923 ) | 223,260   | 9,361     | (150,606 )   | (81,831 ) |
| Total liabilities and equity deficit                     | \$(81,923 ) | \$336,690 | \$403,295 | \$ 49,126 | \$(150,606 ) | \$556,582 |

RADNET, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
December 31, 2010  
(in thousands)  
(unaudited)

|                                           | Parent      | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|-------------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>ASSETS</b>                             |             |                      |                           |                               |              |              |
| <b>CURRENT ASSETS</b>                     |             |                      |                           |                               |              |              |
| Cash and cash equivalents                 | \$-         | \$205                | \$-                       | \$ 422                        | \$-          | \$627        |
| Accounts receivable, net                  | -           | -                    | 52,493                    | 43,601                        | -            | 96,094       |
| Prepaid expenses and other current assets | -           | 8,481                | 5,543                     | 280                           | -            | 14,304       |
| Total current assets                      | -           | 8,686                | 58,036                    | 44,303                        | -            | 111,025      |
| <b>PROPERTY AND EQUIPMENT, NET</b>        |             |                      |                           |                               |              |              |
|                                           | -           | 46,893               | 145,770                   | 1,567                         | -            | 194,230      |
| <b>OTHER ASSETS</b>                       |             |                      |                           |                               |              |              |
| Goodwill                                  | -           | 41,768               | 101,585                   | -                             | -            | 143,353      |
| Other intangible assets                   | -           | 137                  | 57,211                    | -                             | -            | 57,348       |
| Deferred financing costs, net             | -           | 15,486               | -                         | -                             | -            | 15,486       |
| Investment in subsidiaries                | (82,530 )   | 218,393              | 9,223                     | -                             | (145,086 )   | -            |
| Investment in joint ventures              | -           | -                    | 15,444                    | -                             | -            | 15,444       |
| Deposits and other                        | -           | 1,320                | 1,308                     | -                             | -            | 2,628        |
| Total assets                              | \$(82,530 ) | \$332,683            | \$388,577                 | \$ 45,870                     | \$(145,086 ) | \$539,514    |
| <b>LIABILITIES AND EQUITY DEFICIT</b>     |             |                      |                           |                               |              |              |
| <b>CURRENT LIABILITIES</b>                |             |                      |                           |                               |              |              |
| Intercompany                              | \$-         | \$(133,637 )         | \$107,258                 | \$ 26,379                     | -            | \$-          |
| Accounts payable and accrued expenses     | -           | 44,450               | 30,997                    | 7,172                         | -            | 82,619       |
| Due to affiliates                         | -           | -                    | 1,082                     | 1,893                         | -            | 2,975        |
| Deferred revenue                          | -           | 3,082                | 1,568                     | -                             | -            | 1,568        |
|                                           | -           | -                    | 5,136                     | -                             | -            | 8,218        |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                                          |             |           |           |           |              |  |           |
|----------------------------------------------------------|-------------|-----------|-----------|-----------|--------------|--|-----------|
| Current portion of notes payable                         |             |           |           |           |              |  |           |
| Current portion of deferred rent                         | -           | 321       | 424       | -         | -            |  | 745       |
| Obligations under capital leases                         | -           | 5,640     | 3,150     | 349       | -            |  | 9,139     |
| Total current liabilities                                | -           | (80,144 ) | 149,615   | 35,793    | -            |  | 105,264   |
| <b>LONG-TERM LIABILITIES</b>                             |             |           |           |           |              |  |           |
| Deferred rent, net of current portion                    | -           | 6,086     | 4,293     | -         | -            |  | 10,379    |
| Deferred taxes                                           | -           | -         | 277       | -         | -            |  | 277       |
| Notes payable, net of current portion                    | -           | 475,231   | 6,347     | -         | -            |  | 481,578   |
| Obligations under capital leases, net of current portion | -           | 3,535     | 1,307     | 797       | -            |  | 5,639     |
| Other non-current liabilities                            | -           | 10,505    | 8,345     | -         | -            |  | 18,850    |
| Total liabilities                                        | -           | 415,213   | 170,184   | 36,590    | -            |  | 621,987   |
| <b>EQUITY DEFICIT</b>                                    |             |           |           |           |              |  |           |
| Total Radnet, Inc.'s equity deficit                      | (82,530 )   | (82,530 ) | 218,393   | 9,223     | (145,086 )   |  | (82,530 ) |
| Noncontrolling interests                                 | -           | -         | -         | 57        | -            |  | 57        |
| Total equity deficit                                     | (82,530 )   | (82,530 ) | 218,393   | 9,280     | (145,086 )   |  | (82,473 ) |
| Total liabilities and equity deficit                     | \$(82,530 ) | \$332,683 | \$388,577 | \$ 45,870 | \$(145,086 ) |  | \$539,514 |

RADNET, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
For The Three Months Ended March 31, 2011  
(in thousands)  
(unaudited)

|                                                                                   | Parent | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------------|--------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| NET REVENUE                                                                       | \$-    | \$31,116             | \$99,961                  | \$ 15,140                     | \$-          | \$ 146,217   |
| <b>OPERATING EXPENSES</b>                                                         |        |                      |                           |                               |              |              |
| Operating expenses                                                                | -      | 26,728               | 75,112                    | 13,988                        | -            | 115,828      |
| Depreciation and amortization                                                     | -      | 3,496                | 10,315                    | 110                           | -            | 13,921       |
| Provision for bad debts                                                           | -      | 991                  | 6,350                     | 564                           | -            | 7,905        |
| Loss on sale of equipment                                                         | -      | 87                   | 172                       | -                             | -            | 259          |
| Severance costs                                                                   | -      | 69                   | 76                        | -                             | -            | 145          |
| Total operating expenses                                                          | -      | 31,371               | 92,025                    | 14,662                        | -            | 138,058      |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                              |        |                      |                           |                               |              |              |
|                                                                                   | -      | (255 )               | 7,936                     | 478                           | -            | 8,159        |
| <b>OTHER EXPENSES</b>                                                             |        |                      |                           |                               |              |              |
| Interest expense                                                                  | -      | 7,319                | 5,578                     | 18                            | -            | 12,915       |
| Other income                                                                      | -      | (1,871 )             | -                         | -                             | -            | (1,871 )     |
| Total other expenses                                                              | -      | 5,448                | 5,578                     | 18                            | -            | 11,044       |
| <b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES</b> |        |                      |                           |                               |              |              |
|                                                                                   | -      | (5,703 )             | 2,358                     | 460                           | -            | (2,885 )     |
| Provision for income taxes                                                        | -      | (13 )                | (132 )                    | (2 )                          | -            | (147 )       |
| Equity in earnings (losses) of consolidated subsidiaries                          | (876 ) | 4,840                | 390                       |                               | (4,354 )     | -            |
| Equity in earnings of joint ventures                                              | -      | -                    | 2,224                     | -                             | -            | 2,224        |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                                                                   |          |          |         |        |            |          |
|-----------------------------------------------------------------------------------|----------|----------|---------|--------|------------|----------|
| NET INCOME<br>(LOSS)                                                              | (876 )   | (876 )   | 4,840   | 458    | (4,354 )   | (808 )   |
| Net income<br>attributable to<br>noncontrolling<br>interests                      | -        | -        | -       | 68     | -          | 68       |
| NET INCOME<br>(LOSS)<br>ATTRIBUTABLE<br>TO RADNET, INC.<br>COMMON<br>STOCKHOLDERS | \$(876 ) | \$(876 ) | \$4,840 | \$ 390 | \$(4,354 ) | \$(876 ) |

RADNET, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
For The Three Months Ended March 31, 2010  
(in thousands)  
(unaudited)

|                                                                                   | Parent   | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------------|----------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| NET REVENUE                                                                       | \$-      | \$28,679             | \$81,876                  | \$ 13,623                     | \$-          | \$124,178    |
| <b>OPERATING EXPENSES</b>                                                         |          |                      |                           |                               |              |              |
| Operating expenses                                                                | -        | 25,448               | 60,427                    | 12,764                        | -            | 98,639       |
| Depreciation and amortization                                                     | -        | 3,183                | 10,056                    | 36                            | -            | 13,275       |
| Provision for bad debts                                                           | -        | 1,297                | 5,781                     | 599                           | -            | 7,677        |
| Loss (gain) on sale of equipment                                                  | -        | 72                   | 32                        | -                             | -            | 104          |
| Severance costs                                                                   | -        | 82                   | 50                        | -                             | -            | 132          |
| Total operating expenses                                                          | -        | 30,082               | 76,346                    | 13,399                        | -            | 119,827      |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                              |          |                      |                           |                               |              |              |
|                                                                                   | -        | (1,403 )             | 5,530                     | 224                           | -            | 4,351        |
| <b>OTHER EXPENSES</b>                                                             |          |                      |                           |                               |              |              |
| Interest expense                                                                  | -        | 4,118                | 5,846                     | 3                             | -            | 9,967        |
| Total other expenses                                                              | -        | 4,118                | 5,846                     | 3                             | -            | 9,967        |
| <b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES</b> |          |                      |                           |                               |              |              |
|                                                                                   | -        | (5,521 )             | (316 )                    | 221                           | -            | (5,616 )     |
| Provision for income taxes                                                        | -        | (19 )                | (313 )                    | (2 )                          | -            | (334 )       |
| Equity in earnings (losses) of consolidated subsidiaries                          | (4,111 ) | 1,429                | 197                       | -                             | 2,485        | -            |
| Equity in earnings of joint ventures                                              | -        | -                    | 1,861                     | -                             | -            | 1,861        |
|                                                                                   | (4,111 ) | (4,111 )             | 1,429                     | 219                           | 2,485        | (4,089 )     |



|                                                              |   |   |   |    |   |    |
|--------------------------------------------------------------|---|---|---|----|---|----|
| NET INCOME<br>(LOSS)                                         |   |   |   |    |   |    |
| Net income<br>attributable to<br>noncontrolling<br>interests | - | - | - | 22 | - | 22 |

|                                                                                   |          |   |          |   |         |        |         |          |   |
|-----------------------------------------------------------------------------------|----------|---|----------|---|---------|--------|---------|----------|---|
| NET INCOME<br>(LOSS)<br>ATTRIBUTABLE<br>TO RADNET, INC.<br>COMMON<br>STOCKHOLDERS | \$(4,111 | ) | \$(4,111 | ) | \$1,429 | \$ 197 | \$2,485 | \$(4,111 | ) |
|-----------------------------------------------------------------------------------|----------|---|----------|---|---------|--------|---------|----------|---|

**RADNET, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For The Three Months Ended March 31, 2011  
(in thousands)  
(unaudited)

| CASH FLOWS FROM<br>OPERATING ACTIVITIES                                                                                           | Parent   | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------------------------------------------------------------|----------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| Net income (loss)                                                                                                                 | \$(876 ) | \$(876 )             | \$ 4,840                  | \$ 458                        | \$ (4,354 )  | \$ (808 )    |
| Adjustments to reconcile net<br>income (loss) to net cash<br>provided by (used in)<br>operating activities:                       |          |                      |                           |                               |              |              |
| Depreciation and amortization                                                                                                     | -        | 3,496                | 10,315                    | 110                           | -            | 13,921       |
| Provision for bad debts                                                                                                           | -        | 991                  | 6,350                     | 564                           | -            | 7,905        |
| Equity in (earnings) loss of<br>consolidated subsidiaries                                                                         | 876      | (4,840 )             | (390 )                    | -                             | 4,354        | -            |
| Distributions from<br>consolidated subsidiaries                                                                                   | -        | -                    | 344                       | -                             | (344 )       | -            |
| Equity in earnings of joint<br>ventures                                                                                           | -        | -                    | (2,224 )                  | -                             | -            | (2,224 )     |
| Distributions from joint<br>ventures                                                                                              | -        | -                    | 2,504                     | -                             | -            | 2,504        |
| Deferred rent amortization                                                                                                        | -        | 69                   | 36                        | -                             | -            | 105          |
| Deferred financing cost<br>interest expense                                                                                       | -        | 748                  | -                         | -                             | -            | 748          |
| Amortization of bond discount                                                                                                     | -        | 58                   | -                         | -                             | -            | 58           |
| Loss on sale of equipment                                                                                                         | -        | 87                   | 172                       | -                             | -            | 259          |
| Amortization of cash flow<br>hedge                                                                                                | -        | 306                  | -                         | -                             | -            | 306          |
| Stock-based compensation                                                                                                          | -        | 262                  | 786                       | -                             | -            | 1,048        |
| Changes in operating assets<br>and liabilities, net of<br>assets acquired and liabilities<br>assumed in purchase<br>transactions: |          |                      |                           |                               |              |              |
| Accounts receivable                                                                                                               | -        | -                    | (10,607 )                 | (4,874 )                      | -            | (15,481 )    |
| Other current assets                                                                                                              | -        | (981 )               | (981 )                    | (383 )                        | -            | (2,345 )     |
| Other assets                                                                                                                      | -        | 41                   | 10                        | -                             | -            | 51           |
| Deferred revenue                                                                                                                  | -        | -                    | (186 )                    | -                             | -            | (186 )       |
| Accounts payable and accrued<br>expenses                                                                                          | -        | (8,679 )             | 13,169                    | 4,845                         | -            | 9,335        |
| Net cash provided by (used in)<br>operating activities                                                                            | -        | (9,318 )             | 24,138                    | 720                           | (344 )       | 15,196       |
| <b>CASH FLOWS FROM<br/>INVESTING ACTIVITIES</b>                                                                                   |          |                      |                           |                               |              |              |
| Purchase of imaging facilities                                                                                                    | -        | -                    | (6,343 )                  | -                             | -            | (6,343 )     |
| Proceeds from sale of<br>equipment                                                                                                | -        | -                    | 235                       | -                             | -            | 235          |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                                                         |     |          |           |        |      |           |
|-------------------------------------------------------------------------|-----|----------|-----------|--------|------|-----------|
| Purchase of property and equipment                                      | -   | (3,167 ) | (11,830 ) | (619 ) | -    | (15,616 ) |
| Purchase of equity interest in joint ventures                           | -   | -        | (1,500 )  | -      | -    | (1,500 )  |
| Net cash used in investing activities                                   | -   | (3,167 ) | (19,438 ) | (619 ) | -    | (23,224 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |     |          |           |        |      |           |
| Principal payments on notes and leases payable                          | -   | (1,890 ) | (4,515 )  | (85 )  | -    | (6,490 )  |
| Deferred financing costs                                                | -   | (218 )   | -         | -      | -    | (218 )    |
| Distributions paid to noncontrolling interests                          | -   | -        | -         | (377 ) | 344  | (33 )     |
| Proceeds from, net of payments, on line of credit                       | -   | 15,900   | -         | -      | -    | 15,900    |
| Payments to counterparties of cash flow hedges, net of amounts received | -   | (1,611 ) | -         | -      | -    | (1,611 )  |
| Proceeds from issuance of common stock                                  | -   | 99       | -         | -      | -    | 99        |
| Net cash provided by (used in) financing activities                     | -   | 12,280   | (4,515 )  | (462 ) | 344  | 7,647     |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                          |     |          |           |        |      |           |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                    | -   | (205 )   | 198       | (361 ) | -    | (368 )    |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                   |     |          |           |        |      |           |
|                                                                         | -   | 205      | -         | 422    | -    | 627       |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                         |     |          |           |        |      |           |
|                                                                         | \$- | \$-      | \$ 198    | \$ 61  | \$ - | \$ 259    |

RADNET, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For The Three Months Ended March 31, 2010  
 (in thousands)  
 (unaudited)

| CASH FLOWS<br>FROM<br>OPERATING<br>ACTIVITIES                                                      | Parent     | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------------------------------------------------------------|------------|----------------------|---------------------------|-------------------------------|--------------|--------------|
| Net income (loss)                                                                                  | \$(4,111 ) | \$(4,111 )           | \$1,429                   | \$ 219                        | \$2,485      | \$(4,089 )   |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |            |                      |                           |                               |              |              |
| Depreciation and amortization                                                                      | -          | 3,183                | 10,056                    | 36                            | -            | 13,275       |
| Provision for bad debts                                                                            | -          | 1,297                | 5,781                     | 599                           | -            | 7,677        |
| Equity in (earnings) loss of consolidated subsidiaries                                             | 4,111      | (1,429 )             | (197 )                    | -                             | (2,485 )     | -            |
| Distributions from consolidated subsidiaries                                                       | -          | -                    | 100                       | -                             | (100 )       | -            |
| Equity in earnings of joint ventures                                                               | -          | -                    | (1,861 )                  | -                             | -            | (1,861 )     |
| Distributions from joint ventures                                                                  | -          | -                    | 3,095                     | -                             | -            | 3,095        |
| Deferred rent amortization                                                                         | -          | 347                  | 12                        | -                             | -            | 359          |
| Deferred financing cost interest expense                                                           | -          | 670                  | -                         | -                             | -            | 670          |
| Loss on sale of equipment                                                                          | -          | 72                   | 32                        | -                             | -            | 104          |
| Stock-based compensation                                                                           | -          | 205                  | 614                       | -                             | -            | 819          |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in     |            |                      |                           |                               |              |              |

Edgar Filing: RadNet, Inc. - Form 10-Q

|                                                                        |   |           |           |          |        |           |
|------------------------------------------------------------------------|---|-----------|-----------|----------|--------|-----------|
| purchase transactions:                                                 |   |           |           |          |        |           |
| Accounts receivable                                                    | - | -         | (6,205 )  | (1,866 ) | -      | (8,071 )  |
| Other current assets                                                   | - | (2,521 )  | 1,380     | (285 )   | -      | (1,426 )  |
| Other assets                                                           | - | (363 )    | (924 )    | -        | -      | (1,287 )  |
| Accounts payable and accrued expenses                                  | - | 419       | 5,503     | 1,415    | -      | 7,337     |
| Net cash provided by (used in) operating activities                    | - | (2,231 )  | 18,815    | 118      | (100 ) | 16,602    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |   |           |           |          |        |           |
| Purchase of imaging facilities                                         | - | (1,260 )  | (5,448 )  | -        | -      | (6,708 )  |
| Purchase of property and equipment                                     | - | (2,909 )  | (9,991 )  | -        | -      | (12,900 ) |
| Net cash used in investing activities                                  | - | (4,169 )  | (15,439 ) | -        | -      | (19,608 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |   |           |           |          |        |           |
| Principal payments on notes and leases payable                         | - | (2,162 )  | (3,376 )  | -        | -      | (5,538 )  |
| Distributions paid to noncontrolling interests                         | - | -         | -         | (118 )   | 100    | (18 )     |
| Payments to counterparties of cash flow hedges net of amounts received | - | (1,581 )  | -         | -        | -      | (1,581 )  |
| Proceeds from issuance of common stock                                 | - | 49        | -         | -        | -      | 49        |
| Net cash provided by (used in) financing activities                    | - | (3,694 )  | (3,376 )  | (118 )   | 100    | (7,088 )  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                       |   |           |           |          |        |           |
|                                                                        | - | (10,094 ) | -         | -        | -      | (10,094 ) |

|                                                            |     |        |     |     |     |        |
|------------------------------------------------------------|-----|--------|-----|-----|-----|--------|
| CASH AND<br>CASH<br>EQUIVALENTS,<br>beginning of<br>period | -   | 10,094 | -   | -   | -   | 10,094 |
| CASH AND<br>CASH<br>EQUIVALENTS,<br>end of period          | \$- | \$-    | \$- | \$- | \$- | \$-    |

## NOTE 3 – RECENT ACCOUNTING STANDARDS

There are no recently issued accounting standards that are expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

## NOTE 4 – FACILITY ACQUISITIONS

On January 3, 2011, we completed our acquisition of Imaging On Call, LLC, a provider of teleradiology services to radiology groups, hospitals and imaging centers located in Poughkeepsie, New York, for \$5.5 million cash plus an earn-out of up to an additional \$2.5 million. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately \$1.6 million of accounts receivable and other current assets, \$785,000 of fixed assets, \$850,000 of intangible assets related to the value of customer relationships and trade name, and \$3.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately \$1.5 million of accrued liabilities of which approximately \$790,000 related to our estimated fair value of the earn-out mentioned above.

On February 16, 2011, we acquired the diagnostic imaging practice of Stuart London, MD in Oakland, CA for \$600,000. Upon acquisition, we relocated the practice to a nearby existing Oakland center. We have made a preliminary purchase price allocation and have allocated the full purchase price of \$600,000 to goodwill.

On February 18, 2011, we completed our acquisition of Team Radiology, Inc. from Team Health, Inc. for approximately \$243,000. A provider of teleradiology services, Team Radiology will complement our teleradiology operations acquired from Imaging on Call, LLC. We have made a preliminary purchase price allocation of the acquired assets and liabilities and approximately \$93,000 of other current assets, \$126,000 of fixed assets and \$24,000 of intangible assets related to the value of customer relationships and trade name was recorded with respect to this transaction.

## NOTE 5 – EARNINGS PER SHARE

Earnings per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury, as follows (in thousands except share and per share data):

|                                                                                     | Three Months Ended<br>March 31, |            |
|-------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                     | 2011                            | 2010       |
| Net loss attributable to Radnet, Inc.'s common stockholders                         | \$(876                          | ) \$(4,111 |
| Weighted average number of common shares outstanding during the year                | 37,257,683                      | 36,363,946 |
| Basic and diluted loss per share attributable to Radnet, Inc.'s common stockholders | \$(0.02                         | ) \$(0.11  |

For the three months ended March 31, 2011 and 2010, we excluded all options and warrants in the calculation of diluted loss per share because their effect is antidilutive.

## NOTE 6 – DERIVATIVE INSTRUMENTS

We are exposed to certain risks relating to our ongoing business operations. The primary risk managed by us using derivative instruments is interest rate risk. We have in the past entered into interest rate swap agreements to manage

interest rate risk exposure. The interest rate swap agreements utilized by us effectively modified our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis during the period of the interest rate swap, thus reducing the impact of interest-rate changes on future interest expense.

At inception, we designated our interest rate swaps as cash flow hedges of floating-rate borrowings. In accordance with ASC Topic 815, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of accumulated other comprehensive loss in the consolidated statement of equity deficit. The remaining gain or loss, if any, is recognized currently in earnings. Unrealized gain or losses on the change in fair value of interest rate swaps that do not qualify as hedges are recognized in earnings.



As a result of our refinancing and the New Credit Agreement and the issuance of the Notes completed on April 6, 2010, our interest rate swaps do not match the terms of our current bank debt and so accordingly, we have determined that they are no longer designated as cash flow hedges. Accordingly, all changes in their fair value after April 6, 2010 are, and will continue to be recognized in earnings.

The related Accumulated Other Comprehensive Loss (AOCL) of \$3.1 million associated with the negative fair values of these interest rate swaps on April 6, 2010, the date of our refinancing, is being amortized on a straight-line basis to interest expense through November 15, 2012, the maturity date of these cash flow hedges. From April 6, 2010 to March 31, 2011, approximately \$1.3 million of AOCL was amortized to interest expense bringing the remaining balance of AOCL to \$1.8 million at March 31, 2011. As of April 6, 2010, the fair value of the interest rate swaps was a negative \$10.4 million.

At March 31, 2011 the negative fair value of these interest rate swaps was \$9.1 million and was classified as other non-current liabilities in our consolidated balance sheet. For the three months ended March 31, 2011, we recognized approximately \$1.4 million in other income related to the change in fair value of these interest rate swaps.

A tabular presentation of the fair value of derivative instruments as of December 31, 2010 is as follows (amounts in thousands):

|                         | Balance Sheet Location        | Fair Value –<br>Asset<br>(Liability)<br>Derivatives |
|-------------------------|-------------------------------|-----------------------------------------------------|
| Derivatives             |                               |                                                     |
| Interest rate contracts | Other non-current liabilities | \$(10,505 )                                         |

A tabular presentation of the fair value of derivative instruments as of March 31, 2011 is as follows (amounts in thousands):

|                         | Balance Sheet Location        | Fair Value –<br>Asset<br>(Liability)<br>Derivatives |
|-------------------------|-------------------------------|-----------------------------------------------------|
| Derivatives             |                               |                                                     |
| Interest rate contracts | Other non-current liabilities | \$(9,134 )                                          |

A tabular presentation of the effect of derivative instruments on our statement of operations is as follows (amounts in thousands):

| Ineffective<br>Interest Rate<br>Swap | For the Three Months Ended March 31, 2011                                                   |                                                                                                  |                                                                                                    |                                                                                                           |                                                                                                             |
|--------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
|                                      | Amount of Gain<br>(Loss)<br>Recognized in<br>OCI on<br>Derivative<br>(Effective<br>Portion) | Amount of Gain<br>(Loss)<br>Recognized in<br>Income on<br>Derivative<br>(Ineffective<br>Portion) | Location of Gain<br>(Loss)<br>Recognized in<br>Income on<br>Derivative<br>(Ineffective<br>Portion) | Amount of Gain<br>(Loss)<br>Reclassified from<br>Accumulated<br>OCI into Income<br>(Effective<br>Portion) | Location of Gain<br>(Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective<br>Portion) |
| Interest rate<br>contracts           | None                                                                                        | \$1,371                                                                                          | Other income/<br>(expense)                                                                         | *(\$306)                                                                                                  | Interest<br>income/(expense)                                                                                |

\* Amortization of OCI associated with the cash flow hedges through April 6, 2010 (see discussion above).

| For the Three Months Ended March 31, 2010 |                                                                           |                                                                                |                                                                                  |                                                                                         |                                                                                           |
|-------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Ineffective Interest Rate Swap            | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) |
| Interest rate contracts                   | (\$1,472)                                                                 | None                                                                           | Other income/(expense)                                                           | None                                                                                    | Interest income/(expense)                                                                 |

## NOTE 7 – INVESTMENT IN JOINT VENTURES

We have eight unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures increased \$1.9 million to \$17.3 million at March 31, 2011 compared to \$15.4 million at December 31, 2010. This increase is primarily related to our recording of equity earnings of \$2.2 million as well as additional equity contributions of \$1.5 million offset by our respective share of distributions of \$2.5 million.

We received management service fees from the centers underlying these joint ventures of approximately \$1.7 million and \$1.6 million for the three months ended March 31, 2011 and 2010, respectively, and eliminated the portion of the fees earned associated with our ownership from our net revenue with an offsetting increase to our equity earnings.

The following table is a summary of key financial data for these joint ventures as of March 31, 2011 and for the three months ended March 31, 2011 and 2010 (in thousands):

|                                                                                     | March 31, |          |
|-------------------------------------------------------------------------------------|-----------|----------|
|                                                                                     | 2011      |          |
| Balance Sheet Data:                                                                 |           |          |
| Current assets                                                                      | \$15,945  |          |
| Noncurrent assets                                                                   | 25,409    |          |
| Current liabilities                                                                 | (7,455    | )        |
| Noncurrent liabilities                                                              | (7,441    | )        |
| Total net assets                                                                    | \$26,458  |          |
| Book value of Radnet joint venture interests                                        | \$13,586  |          |
| Cost in excess of book value of acquired joint venture interests                    | 3,383     |          |
| Elimination of intercompany profit remaining on Radnet's consolidated balance sheet | 305       |          |
| Total value of Radnet joint venture interests                                       | \$17,274  |          |
| Total book value of other joint venture partner interests                           | \$12,872  |          |
| Income Statement Data for the three months ended March 31,                          | 2011      | 2010     |
| Net revenue                                                                         | \$19,004  | \$17,822 |
| Net income                                                                          | \$3,239   | \$2,775  |

## NOTE 8 – STOCK-BASED COMPENSATION

## Stock Incentive Plans

We have two long-term incentive plans that currently have outstanding stock options which we refer to as the 2000 Plan and the 2006 Plan. The 2000 Plan was terminated as to future grants when the 2006 Plan was approved by the stockholders in 2006. As of March 31, 2011, we have reserved for issuance under the 2006 Plan 6,500,000 shares of common stock. Certain options granted under the 2006 Plan to employees are intended to qualify as incentive stock options under existing tax regulations. In addition, we issue non-qualified stock options and warrants under the 2006 Plan from time to time to non-employees, in connection with acquisitions and for other purposes and we may also

issue stock under the Plan. Stock options and warrants generally vest over two to five years and expire five to ten years from date of grant.

As of March 31, 2011, 3,697,833, or approximately 58.9%, of all the outstanding stock options and warrants under our option plans are fully vested. During the three months ended March 31, 2011, we granted options and warrants to acquire 700,000 shares of common stock.

We have issued warrants outside the Plan under various types of arrangements to employees, in conjunction with debt financing and in exchange for outside services. All warrants issued to employees or consultants after our February 2007 listing on the NASDAQ Global Market have been characterized as awards under the 2006 Plan. All warrants outside the Plan have been issued with an exercise price equal to the fair value of the underlying common stock on the date of grant. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of grant.

As of March 31, 2011, 2,529,566, or approximately 96.1%, of all the outstanding warrants outside the 2006 Plan are fully vested. During the three months ended March 31, 2011, we did not grant warrants outside of our 2006 plan.

The following summarizes all of our option and warrant transactions during the three months ended March 31, 2011:

| Outstanding Options and Warrants<br>Under the 2006 Plan and 2000 Plan |           | Weighted<br>Average<br>Exercise price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------------------------------------------|-----------|---------------------------------------|---------------------------------------------------------|---------------------------------|
|                                                                       | Shares    | Per<br>Common<br>Share                | (in years)                                              |                                 |
| Balance, December 31, 2010                                            | 5,661,000 | \$3.65                                |                                                         |                                 |
| Granted                                                               | 700,000   | 3.05                                  |                                                         |                                 |
| Exercised                                                             | (38,750 ) | 1.51                                  |                                                         |                                 |
| Canceled or expired                                                   | (43,500 ) | 0.85                                  |                                                         |                                 |
| Balance, March 31, 2011                                               | 6,278,750 | 3.61                                  | 3.50                                                    | \$3,977,675                     |
| Exercisable at March 31, 2011                                         | 3,697,833 | 3.77                                  | 3.16                                                    | 2,252,817                       |

| Non-Plan<br>Outstanding Warrants |           | Weighted<br>Average<br>Exercise price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-----------|---------------------------------------|---------------------------------------------------------|---------------------------------|
|                                  | Shares    | Per<br>Common<br>Share                | (in years)                                              |                                 |
| Balance, December 31, 2010       | 2,717,898 | \$2.24                                |                                                         |                                 |
| Granted                          | -         | -                                     |                                                         |                                 |
| Exercised                        | (45,000 ) | 0.91                                  |                                                         |                                 |
| Canceled or expired              | (40,000 ) | 0.80                                  |                                                         |                                 |
| Balance, March 31, 2011          | 2,632,898 | 2.61                                  | 1.73                                                    | \$3,291,597                     |
| Exercisable at March 31, 2011    | 2,529,566 | 2.56                                  | 1.73                                                    | 3,278,564                       |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on March 31, 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all option holders exercised their options on March 31, 2011. Total intrinsic value of options and warrants exercised during the three months ended March 31, 2011 and 2010 was approximately \$189,075 and \$93,900, respectively. As of March 31, 2011, total unrecognized stock-based compensation expense related to non-vested employee awards was approximately \$3.8 million, which is expected to be recognized over a weighted average period of approximately 1.8 years.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option. The following is the average of the data used to calculate the fair value:

|                   | Risk-free<br>Interest<br>Rate | Expected<br>Life | Expected<br>Volatility | Expected<br>Dividends |
|-------------------|-------------------------------|------------------|------------------------|-----------------------|
| March 31,<br>2011 | 2.03%                         | 3.3 years        | 92.07%                 | -                     |
| March 31,<br>2010 | 2.62%                         | 3.2 years        | 89.10%                 | -                     |

Because we lack detailed information about exercise behavior at this time, we have determined the expected term assumption under the “Simplified Method” as defined in ASC Topic 718, originally issued as SAB No. 110. The expected stock price volatility is based on the historical volatility of our stock. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. We have not paid dividends in the past and do not currently plan to pay any dividends in the near future.

The weighted-average grant date fair value of stock options and warrants granted during the three months ended March 31, 2011 and 2010 was \$1.86 and \$1.22, respectively.

#### NOTE 9 – FAIR VALUE MEASUREMENTS

We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, receivables, trade accounts payable, capital leases, long-term debt and other liabilities. We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Additionally, we consider the carrying amount of our capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates.

At March 31, 2011, based on Level 2 inputs primarily related to comparable market prices, we determined the fair values of our senior secured term loan and our senior unsecured notes, both issued on April 6, 2010, to be \$283.2 million and \$203.5 million, respectively. The carrying amount of the senior secured term loan and the senior unsecured notes at March 31, 2011 was \$282.2 million and \$200.0 million, respectively.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At March 31, 2011 the fair value of these swaps of a liability of \$9.1 million was determined using Level 2 inputs. More specifically, the fair value was determined by calculating the value of the difference between the fixed interest rate of the interest rate swaps and the counterparty’s forward LIBOR curve, which would be the input used in the valuations. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets.

On January 1, 2009, the Company adopted, without material impact on its consolidated financial statements, the provisions of FASB ASC Topic 820 related to nonfinancial assets and nonfinancial liabilities that are not required or

permitted to be measured at fair value on a recurring basis, which include those measured at fair value including goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.



NOTE 10 – SUBSEQUENT EVENTS

On April 4, 2011, we completed our acquisition of five multi-modality imaging centers in Maryland from Diagnostic Health Corporation for an aggregate of \$5.1 million in cash and the assumption of approximately \$1.8 million in certain liabilities. The facilities located in Bowie, Chevy Chase, Frederick, Rockville and Waldorf operate a combination of MRI, CT, ultrasound, mammography, x-ray and other related modalities.

On April 19, 2011, our board of directors approved an amendment to the 2006 Plan to increase the number of shares available for issuance from 6,500,000 to 11,000,000. Such amendment has been submitted to the stockholders to vote on at the annual meeting scheduled for June 16, 2011.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to identify forward-looking statements.

Statements in this report relating to the following are forward looking statements:

- future revenues;
- expected performance and cash flows;
- the timing and impact of changes in regulations affecting the Company;
- anticipated and potential changes in third-party reimbursement rates;
- the outcome of litigation;
- the availability of radiologists at BRMG and our other contracted radiology practices;
- our expectations concerning competition;
- the success, timing and impact of potential acquisitions and divestitures of businesses;
- our intentions with respect to joint ventures and other business arrangements;
- access to capital and the terms relating thereto;
- the nature and impact of technological changes in our industry;
- our ability to successfully implement and achieve our internal plans;
- our ability to maintain compliance with our debt covenants; and
- anticipated costs of capital investments.

The factors included in "Risks Relating to Our Business," in our annual report on Form 10-K for the fiscal year ended December 31, 2010, as amended or supplemented by the information, if any, in Part II – Item 1A below, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements. You should consider the inherent limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. These forward-looking statements speak only as of the date when they are made. Except as required under the federal securities laws or by the rules and regulations of the Securities and Exchange Commission, we do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the Company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the Company's filings with the SEC on Form 10-K, Form 10-Q and Form 8-K.

### Overview

With 201 centers, as of March 31, 2011, located in six states including California, Delaware, Maryland, New Jersey, Florida, and New York, we are the leading national provider of freestanding, fixed-site outpatient diagnostic imaging services in the United States based on number of locations and annual imaging revenue. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services, a key point of differentiation from our competitors. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures.

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for managing relationships with local physicians and payors, meeting our standards of patient service and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the three months ended March 31, 2011, we performed 891,411 diagnostic imaging procedures and generated net revenue from continuing operations of \$146.2 million.

The consolidated financial statements include the accounts of Radnet Management and BRMG. The consolidated financial statements also include Radnet Management I, Inc., Radnet Management II, Inc., Radiologix, Inc., Radnet Management Imaging Services, Inc., Delaware Imaging Partners, Inc., New Jersey Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of Radnet Management. All of these affiliated entities are referred to collectively as “RadNet”, “we”, “us,” “our” or the “Company” in this report.

Accounting Standards Codification Section 810-10-15-14 stipulates that generally any entity with (a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or (b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity (VIE). We consolidate all voting interest entities in which we own a majority voting interest and all VIEs for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE’s variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

#### Critical Accounting Policies

##### Use of Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Management makes estimates and assumptions when preparing financial statements. These estimates and assumptions affect various matters, including:

- our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;
- our disclosure of contingent assets and liabilities at the dates of the financial statements; and
- our reported amounts of net revenue and expenses in our consolidated statements of operations during the reporting periods.

These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ materially from these estimates.

The Securities and Exchange Commission, or SEC, defines critical accounting estimates as those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. In Note 2 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2010, we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The most significant areas involving management's judgments and estimates are described below.

During the period covered in this report, there were no material changes to the critical accounting estimates we use, and have described in our annual report on Form 10-K for the fiscal year ended December 31, 2010.

#### Revenue Recognition

Our consolidated net revenue consists of net patient fee for service revenue and revenue from capitation arrangements, or capitation revenue. Net patient service revenue is recognized at the time services are provided net of contractual adjustments based on our evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. The amount of expected collection is continually adjusted as more information is received and such adjustments are recorded in current operations. Contractual adjustments result from the differences between the rates charged for services performed and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Capitation revenue is recognized as revenue during the period in which we were obligated to provide services to plan enrollees under contracts with various health plans. Under these contracts, we receive a per-enrollee amount each month covering all contracted services needed by the plan enrollees.

#### Accounts Receivable

Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. Receivables generally are collected within industry norms for third-party payors. We continuously monitor collections from our payors and maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

#### Depreciation and Amortization of Long-Lived Assets

We depreciate our long-lived assets over their estimated economic useful lives with the exception of leasehold improvements where we use the shorter of the assets useful lives or the lease term of the facility for which these assets are associated.

#### Deferred Tax Assets

We evaluate the realizability of the net deferred tax assets and assess the valuation allowance periodically. If future taxable income or other factors are not consistent with our expectations, an adjustment to our allowance for net deferred tax assets may be required. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies in determining whether our net deferred tax assets are more likely than not to be realized.

#### Valuation of Goodwill and Long-Lived Assets

Goodwill at March 31, 2011 totaled \$147.8 million. Goodwill is recorded as a result of business combinations. Management evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 350, Intangibles – Goodwill and Other. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a

second step is performed to measure the amount of impairment loss, if any. We tested goodwill for impairment on October 1, 2010. Based on our test, we noted no impairment related to goodwill as of October 1, 2010. However, if estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying amount of goodwill. No indications of impairment were noted at March 31, 2011.

We evaluate our long-lived assets (property and equipment) and definite-lived intangibles for impairment whenever indicators of impairment exist. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of March 31, 2011.

## Recent Accounting Standards

There are no recently issued accounting standards that are expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

## Recent Developments and Facility Acquisitions

On January 3, 2011, we completed our acquisition of Imaging On Call, LLC, a provider of teleradiology services to radiology groups, hospitals and imaging centers located in Poughkeepsie, New York, for \$5.5 million cash plus an earn-out of up to an additional \$2.5 million. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately \$1.6 million of accounts receivable and other current assets, \$785,000 of fixed assets, \$850,000 of intangible assets related to the value of customer relationships and trade name, and \$3.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately \$1.5 million of accrued liabilities of which approximately \$790,000 related to our estimated fair value of the earn-out mentioned above.

On February 16, 2011, we acquired the diagnostic imaging practice of Stuart London, MD in Oakland, CA for \$600,000. Upon acquisition, we relocated the practice to a nearby existing Oakland center. We have made a preliminary purchase price allocation and have allocated the full purchase price of \$600,000 to goodwill.

On February 18, 2011, we completed our acquisition of Team Radiology, Inc. from Team Health, Inc. for approximately \$243,000. A provider of teleradiology services, Team Radiology will complement our teleradiology operations acquired from Imaging on Call, LLC. We have made a preliminary purchase price allocation of the acquired assets and liabilities and approximately \$93,000 of other current assets, \$126,000 of fixed assets and \$24,000 of intangible assets related to the value of customer relationships and trade name was recorded with respect to this transaction.

On April 4, 2011, we completed our acquisition of five multi-modality imaging centers in Maryland from Diagnostic Health Corporation for an aggregate of \$5.1 million in cash and the assumption of approximately \$1.8 million in certain liabilities. The facilities located in Bowie, Chevy Chase, Frederick, Rockville and Waldorf operate a combination of MRI, CT, ultrasound, mammography, x-ray and other related modalities.

## Industry Trends

Prior to 2007, for services for which we bill Medicare directly, we were paid under the Medicare Physician Fee Schedule, which is updated on an annual basis. Under the Medicare statutory formula, payments under the Physician Fee Schedule would have decreased for the past several years if Congress failed to intervene. For example, for 2008, the fee schedule rates were to be reduced by approximately 10.1%. The Medicare, Medicaid and SCHIP Extension Act of 2007 eliminated the 10.1% reduction for 2008 and increased the annual payment rate update by 0.5%. This increase to the annual Medicare Physician Fee Schedule payment update was effective only for Medicare claims with dates of service between January 1, 2008 and June 30, 2008. Beginning July 1, 2008, under MIPPA, the 0.5% increase was continued for the rest of 2008. In addition, MIPPA established a 1.1% increase to the Medicare Physician Fee Schedule payment update for 2009.

For 2010, CMS projected a rate reduction of 21.2% in the absence of Congressional intervention. However, over the course of the first six months of 2010, various temporary solutions were enacted by Congress which resulted in delaying any such change to the physician fee schedule. Ultimately, a 2.2% increase in the conversion factor was passed by Congress effective June 1, 2010, further delaying the pending 21.2% conversion factor reduction to November 30, 2010. On November 29, 2010, the calendar year 2011 physician fee schedule final rule with comment



period was published in the Federal Register. The rule updates payment policies and Medicare payment rates under the Medicare physician fee schedule for physicians' services and would have significantly reduced physician fee schedule payments in 2011 had Congress not acted by passing the Physician Payment and Therapy Relief Act of 2010 and the Medicare and Medicaid Extenders Act of 2010, which together continue the 2.2% update from June 2010 through December 31, 2011. While Congress has historically provided temporary relief from the formula-driven reductions in the conversion factor, it cannot be guaranteed that Congress will act to provide relief in the future. The failure of Congress to act could adversely impact our revenues and results of operation.

MIPPA also modified the methodology by which the budget neutrality formula was applied to the 2009 physician fee schedule payment rates, resulting in an overall reduction in payment rates for services performed by many specialties, including an estimated 1% reduction for nuclear medicine. The impact of the payment rates on specific companies depends on their service mix. Also with respect to MIPPA, the legislation requires all suppliers that provide the technical component of diagnostic MRI, PET/CT, CT, and nuclear medicine to be accredited by an accreditation organization designated by CMS (which currently include the ACR, the IAC and The Joint Commission) by January 1, 2012. Our MRI, CT, nuclear medicine, ultrasound and mammography facilities are currently accredited by the ACR.

A number of other legislative changes impact our retail business. For example, beginning on January 1, 2007, the DRA imposed caps on Medicare payment rates for certain imaging services furnished in physician's offices and other non-hospital based settings. Under the cap, payments for specified imaging services cannot exceed the hospital outpatient payment rates for those services. The limitation is applicable to the technical components of the diagnostic imaging services only, which is the payment we receive for the services for which we bill directly under the Medicare Physician Fee Schedule. CMS issues on an annual basis the hospital outpatient prospective payment rates, which are used to develop the caps. If the technical component of the service established under the Physician Fee Schedule (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), then the payment is to be reduced. In other words, in those instances where the technical component for the particular service is greater for the non-hospital site, the DRA directs that the hospital outpatient payment rate be substituted for the otherwise applicable Physician Fee Schedule payment rate.

The DRA also codified the reduction in reimbursement for multiple images on contiguous body parts, which was previously announced by CMS. The DRA mandated payment at 100% of the technical component of the higher priced imaging procedure and 50% for the technical component of each additional imaging procedure for multiple images of contiguous body parts within a family of codes performed in the same session. Initially, CMS announced that it would phase in this reimbursement reduction over a two-year period, to include a 25% reduction for each additional imaging procedure on contiguous body parts in 2006 and an additional 25% reduction in 2007. CMS did not implement the additional 25% reduction scheduled for 2007, but for services furnished on or after July 1, 2010, PPACA requires the full 50% reduction to be implemented.

Regulatory updates to payment rates for which we bill the Medicare program directly are published annually by CMS. For payments under the Physician Fee Schedule for calendar year 2010, CMS changed the way it calculates components of the Medicare Physician Fee Schedule. First, CMS reduced payment rates for certain diagnostic services using equipment costing more than \$1 million through revisions to usage assumptions from the current 50% usage rate to a 90% usage rate. This change applied to MRI and CT scans. However, for certain diagnostic services performed on or after January 1, 2011, the Reconciliation Act reduces the assumed usage rate for such equipment from CMS's current rate of 90% to a rate of 75%, resulting in an increase in payment rates for such services.

Recent global market and economic conditions have been unprecedented. Concerns about the potential long-term and widespread recession, inflation, energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased market volatility and diminished expectations for the United States economy. These conditions, combined with declining business and consumer confidence and increased unemployment, have contributed to unusual volatility. At this time, it is unclear what impact this might have on our future revenues or business.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. If market conditions continue, they may limit our ability to timely access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition, results of operations or cash flows.

## Results of Operations

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bears to net revenue.



RADNET, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|                                                                              | Three Months Ended<br>March 31, |             |
|------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                              | 2011                            | 2010        |
| NET REVENUE                                                                  | 100.0%                          | 100.0       |
| <b>OPERATING EXPENSES</b>                                                    |                                 |             |
| Cost of operations                                                           | 79.2%                           | 79.4        |
| Depreciation and amortization                                                | 9.5%                            | 10.7        |
| Provision for bad debts                                                      | 5.4%                            | 6.2         |
| Loss on sale of equipment                                                    | 0.2%                            | 0.1         |
| Severance costs                                                              | 0.1%                            | 0.1         |
| Total operating expenses                                                     | 94.4%                           | 96.5        |
| <b>INCOME FROM OPERATIONS</b>                                                | <b>5.6%</b>                     | <b>3.5</b>  |
| <b>OTHER EXPENSES</b>                                                        |                                 |             |
| Interest expense                                                             | 8.8%                            | 8.0         |
| Other income                                                                 | -1.3%                           | 0.0         |
| Total other expenses                                                         | 7.6%                            | 8.0         |
| <b>LOSS BEFORE INCOME TAXES AND EQUITY<br/>IN EARNINGS OF JOINT VENTURES</b> | <b>-2.0%</b>                    | <b>-4.5</b> |
| Provision for income taxes                                                   | -0.1%                           | -0.3        |
| Equity in earnings of joint ventures                                         | 1.5%                            | 1.5         |
| <b>NET LOSS</b>                                                              | <b>-0.6%</b>                    | <b>-3.3</b> |
| Net income attributable to noncontrolling interests                          | 0.0%                            | 0.0         |
| <b>NET LOSS ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS</b>             | <b>-0.6%</b>                    | <b>-3.3</b> |

Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

#### Net Revenue

Net revenue for the three months ended March 31, 2011 was \$146.2 million compared to \$124.2 million for the three months ended March 31, 2010, an increase of \$22.0 million, or 17.8%.

Net revenue, including only those centers which were in operation throughout the first quarters of both 2011 and 2010, increased \$3.3 million, or 2.7%. This 2.7% increase is primarily the result of a similar percentage increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2010. For the three months ended March 31, 2011, net revenue from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was \$19.1 million. For the three months ended March 31, 2010, net revenue from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was \$391,000.

#### Operating Expenses

Cost of operations for the three months ended March 31, 2011 increased approximately \$17.2 million, or 17.4%, from \$98.6 million for the three months ended March 31, 2010 to \$115.8 million for the three months ended March 31, 2011. The following table sets forth our cost of operations and total operating expenses for the three months ended March 31, 2011 and 2010 (in thousands):

28

---

|                                                                            | Three Months Ended<br>March 31, |            |
|----------------------------------------------------------------------------|---------------------------------|------------|
|                                                                            | 2011                            | 2010       |
| Salaries and professional reading fees, excluding stock-based compensation | \$ 64,658                       | \$ 54,665  |
| Stock-based compensation                                                   | 1,048                           | 819        |
| Building and equipment rental                                              | 12,660                          | 11,252     |
| Medical supplies                                                           | 7,576                           | 6,762      |
| Other operating expenses *                                                 | 29,886                          | 25,141     |
| Cost of operations                                                         | 115,828                         | 98,639     |
| Depreciation and amortization                                              | 13,921                          | 13,275     |
| Provision for bad debts                                                    | 7,905                           | 7,677      |
| Loss on sale of equipment, net                                             | 259                             | 104        |
| Severance costs                                                            | 145                             | 132        |
| Total operating expenses                                                   | \$ 138,058                      | \$ 119,827 |

\* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

#### Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees increased \$10.0 million, or 18.3%, to \$64.7 million for the three months ended March 31, 2011 compared to \$54.7 million for the three months ended March 31, 2010.

Salaries and professional reading fees, including only those centers which were in operation throughout the first quarters of both 2011 and 2010, increased \$183,000, or 0.3%. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2010. For the three months ended March 31, 2011, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was approximately \$10.0 million. For the three months ended March 31, 2010, salaries and professional reading fees from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was approximately \$180,000.

#### Stock-based compensation

Stock-based compensation increased \$229,000, or 28.0%, to approximately \$1.0 million for the three months ended March 31, 2011 compared to \$819,000 for the three months ended March 31, 2010. The increase is primarily due to additional options granted during the second half of 2010 and the first quarter of 2011.

#### Building and equipment rental

Building and equipment rental expenses increased \$1.4 million, or 12.5%, to \$12.7 million for the three months ended March 31, 2011 compared to \$11.3 million for the three months ended March 31, 2010.

Building and equipment rental expenses, including only those centers which were in operation throughout the first quarters of both 2011 and 2010, decreased \$66,000, or 0.6%. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2010. For the three months ended March 31, 2011, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2010 and excluded from the

above comparison was approximately \$1.6 million. For the three months ended March 31, 2010, building and equipment rental expenses from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was \$104,000.

Medical supplies

Medical supplies expense increased \$814,000, or 12.0%, to \$7.6 million for the three months ended March 31, 2011 compared to \$6.8 million for the three months ended March 31, 2010.

Medical supplies expenses, including only those centers which were in operation throughout the first quarters of both 2011 and 2010, increased \$232,000, or 3.4%. This 3.4% increase is in line with the increase in our procedure volumes. This comparison excludes expenses from centers that were acquired or divested subsequent to January 1, 2010. For the three months ended March 31, 2011, medical supplies expense from centers that were acquired subsequent to January 1, 2010 and excluded from the above comparison was \$594,000.

#### Depreciation and amortization

Depreciation and amortization increased \$646,000, or 4.9%, to \$13.9 million for the three months ended March 31, 2011 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

#### Provision for bad debts

Provision for bad debts increased \$228,000, or 3.0%, to \$7.9 million, or 5.4% of net revenue, for the three months ended March 31, 2011 compared to \$7.7 million, or 6.2% of net revenue, for the three months ended March 31, 2010.

#### Interest expense

Interest expense for the three months ended March 31, 2011 increased approximately \$2.9 million, or 29.6%, to \$12.9 million for the three months ended March 31, 2011 compared to \$10.0 million for the three months ended March 31, 2010. Interest expense for the three months ended March 31, 2011 included \$748,000 of amortization of deferred loan costs as well as \$306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. See "Liquidity and Capital Resources" below for more details on our debt refinancing. Interest expense for the three months ended March 31, 2010 included \$670,000 of amortization of deferred loan costs. Excluding these adjustments to interest expense for each period, interest expense increased \$2.5 million. This increase was primarily due to interest expense on the additional borrowings under the debt refinancing completed April 6, 2010.

#### Other income

For the three months ended March 31, 2011, we recorded approximately \$1.9 million of other income including \$1.4 million of fair value adjustments on our interest rate swaps as well as \$500,000 of insurance proceeds related to equipment damaged in a fire at one of our imaging centers.

#### Income tax expense

For the three months ended March 31, 2011 and 2010, we recorded \$147,000 and \$334,000, respectively, for income tax expense primarily related to taxable income generated in the states of Maryland and Delaware.

#### Equity in earnings from unconsolidated joint ventures

For the three months ended March 31, 2011, we recognized equity in earnings from unconsolidated joint ventures of \$2.2 million compared to \$1.9 million for the three months ended March 31, 2010. This increase is primarily due to an increase in procedure volumes at these joint venture imaging businesses.

#### Adjusted EBITDA



We use both GAAP and non-GAAP metrics to measure our financial results. We believe that, in addition to GAAP metrics, these non-GAAP metrics assist us in measuring our cash generated from operations and ability to service our debt obligations. We believe this information is useful to investors and other interested parties because we are highly leveraged and our non-GAAP metrics removes non-cash and certain other charges that occur in the affected period and provides a basis for measuring the Company's financial condition against other quarters.

One non-GAAP measure we believe assists us is Adjusted EBITDA. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, each from continuing operations and exclude losses or gains on the disposal of equipment, other income or loss, loss on debt extinguishments, bargain purchase gains and non-cash equity compensation. Adjusted EBITDA includes equity earnings in unconsolidated operations and subtracts allocations of earnings to non-controlling interests in subsidiaries, and is adjusted for non-cash or extraordinary and one-time events taking place during the period.

Adjusted EBITDA is reconciled to its nearest comparable GAAP financial measure, net income (loss) attributable to RadNet, Inc. common stockholders. Adjusted EBITDA is a non-GAAP financial measure used as an analytical indicator by us and the healthcare industry to assess business performance, and is a measure of leverage capacity and ability to service debt. Adjusted EBITDA should not be considered a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. As Adjusted EBITDA is not a measurement determined in accordance with GAAP and is therefore susceptible to varying methods of calculation, this metric, as presented, may not be comparable to other similarly titled measures of other companies.

The following is a reconciliation of GAAP net loss to Adjusted EBITDA for the three months ended March 31, 2011 and 2010, respectively:

|                                                           | Three Months Ended<br>March 31, |            |
|-----------------------------------------------------------|---------------------------------|------------|
|                                                           | 2011                            | 2010       |
| Net Loss Attributable to RadNet, Inc. Common Stockholders | \$(876 )                        | \$(4,111 ) |
| Plus Provision for Income Taxes                           | 147                             | 334        |
| Plus Other Expenses (Income)                              | (1,871 )                        | -          |
| Plus Interest Expense                                     | 12,915                          | 9,967      |
| Plus Severance Costs                                      | 145                             | 132        |
| Plus Loss on Sale of Equipment                            | 259                             | 104        |
| Plus Depreciation and Amortization                        | 13,921                          | 13,275     |
| Plus Non Cash Employee Stock Based Compensation           | 1,048                           | 819        |
| Adjusted EBITDA                                           | \$25,688                        | \$20,520   |

#### Liquidity and Capital Resources

We had a working capital balance of \$11.0 million and \$5.8 million at March 31, 2011 and December 31, 2010, respectively. We had a net loss attributable to RadNet, Inc.'s common stockholders of \$876,000 and \$4.1 million for the three months ended March 31, 2011 and 2010, respectively. We also had an equity deficit of \$81.8 million and \$82.5 million at March 31, 2011 and December 31, 2010, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our existing debt and contractual obligations. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of financing under credit arrangements with third parties.

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our credit agreement, will be adequate to meet our short-term and long-term liquidity needs. Our future liquidity requirements will be for working capital, capital expenditures, debt service and general corporate purposes. Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

From time to time, we may pursue acquisitions, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund any future acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our current credit agreement or through new equity or debt issuances. There can be no assurance that acquisition funds will be available on terms acceptable to us, or at all.

We and our subsidiaries or affiliates may from time to time, in our or their sole discretion, continue to purchase, repay, redeem or retire any of our outstanding debt or equity securities in privately negotiated or open market transactions, by tender offer or otherwise. However, we have no formal plan of doing so at this time.

Our business strategy with regard to operations focuses on the following:

- maximizing performance at our existing facilities;
- focusing on profitable contracting;
- expanding MRI, CT and PET applications;
- optimizing operating efficiencies; and
- expanding our networks.

On April 6, 2010, we completed a series of transactions which we refer to as our "debt refinancing plan" for an aggregate of \$585 million. As part of the debt refinancing plan, our wholly owned subsidiary Radnet Management, Inc. issued and sold \$200,000,000 in 10 3/8% senior notes due 2018 (the "senior notes"). All payments of the senior notes, including principal and interest, are guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future domestic wholly owned restricted subsidiaries. The senior notes were issued under an indenture, dated April 6, 2010, by and among Radnet Management, as issuer, RadNet, Inc., as parent guarantor, the subsidiary guarantors thereof and U.S. Bank National Association, as trustee, in a private placement that was not subject to the registration requirements of the Securities Act. The senior notes initially issued on April 6, 2010 in a private placement were subsequently publicly offered for exchange enabling holders of the outstanding senior notes to exchange the outstanding notes for publicly registered exchange notes with nearly identical terms.

In addition to the issuance of senior notes, the debt refinancing plan provided for the entry by Radnet Management entered into a new Credit and Guaranty Agreement with a syndicate of lenders (the "New Credit Agreement"), whereby Radnet Management obtained \$385,000,000 in senior secured first-lien bank financing, consisting of (i) a \$285,000,000, six-year term loan facility and (ii) a \$100,000,000, five-year revolving credit facility, including a swing line subfacility and a letter of credit subfacility (collectively, the "New Credit Facilities"). Radnet Management's obligations under the New Credit Agreement are unconditionally guaranteed by RadNet, Inc., all of Radnet Management's current and future wholly owned domestic subsidiaries as well as certain affiliates, including Beverly Radiology Medical Group III and its equity holders (Beverly Radiology Medical Group, Inc., BreastLink Medical Group, Inc. and ProNet Imaging Medical Group, Inc.). These New Credit Facilities created by the New Credit Agreement are secured by a perfected first-priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future wholly owned domestic subsidiaries.

In connection with the issuance of the outstanding notes and entering into the New Credit Agreement, Radnet Management used the net proceeds from the issuance of the outstanding notes and the New Credit Facilities created by the New Credit Agreement to repay in full its existing first lien term loan for \$242.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2012, and its second lien term loan for \$170.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2013.

At March 31, 2011, Radnet Management had \$200 million aggregate principal amount of senior notes outstanding, \$282.2 million of senior secured term loan debt outstanding and \$15.9 million outstanding under the revolving credit facility.

Sources and Uses of Cash

Cash provided by operating activities was \$15.2 million for the three months ended March 31, 2011 and \$16.6 million for the three months ended March 31, 2010.

Cash used in investing activities was \$23.2 million and \$19.6 million for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2011, we purchased property and equipment for approximately \$15.6 million and acquired the assets and businesses of additional imaging facilities for approximately \$6.3 million.

Cash provided by financing activities was \$7.6 million for the three months ended March 31, 2011 compared to cash used in financing activities of \$7.1 million for the three months ended March 31, 2010. The cash provided by financing activities for the three months ended March 31, 2011 was primarily related to proceeds from borrowings on our line of credit offset in part by payments we made toward our term loans, capital leases and line of credit balances, as well as \$1.6 million of cash payments, net of cash receipts, related to our modified cash flow hedges.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

**Foreign Currency Exchange Risk.** We sell our services exclusively in the United States and receive payment for our services exclusively in United States dollars. As a result, our financial results are unlikely to be affected by factors such as changes in foreign currency, exchange rates or weak economic conditions in foreign markets.

After the completion of the acquisition of Image Medical Corporation, the parent of eRAD, Inc. on October 1, 2010, we maintain research and development facilities in Prince Edward Island, Canada and Budapest, Hungary for which expenses are paid in the local currency. Accordingly, we do have currency risk resulting from fluctuations between such local currency and the United States Dollar. At the present time, we do not have any foreign exchange currency contracts to mitigate this risk. Fluctuations in foreign exchange rates could impact future operating results.

**Interest Rate Sensitivity.** A large portion of our interest expense is not sensitive to changes in the general level of interest in the United States because much of our indebtedness has interest rates that were fixed when we entered into the note payable or capital lease obligation. Our credit facility however, which is classified as a long-term liability on our financial statements, is interest expense sensitive to changes in the general level of interest in the United States because it is priced at a 3.75% spread to the greater of 2% (“LIBOR Floor”) or 3 month LIBOR. At March 31, 2011, we had \$298.0 million outstanding under our credit facilities. Because the LIBOR Floor exceeds the current spot rate of 3 month LIBOR (currently at about 31 basis points), the spot rate of 3 month LIBOR would have to increase by more than 170 basis points before we would recognize any increase in our interest expense. The LIBOR rate would have to increase by 270 basis points for us to realize a 1% increase in our borrowing rate under our current credit facility and for us to experience an annual increase of \$3.0 million in our interest expense.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2011. Based on such evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective for their intended purpose described above.

**Changes in Internal Control over Financial Reporting**

No changes were made in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

**Limitations on Disclosure Controls and Procedures.**

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of

fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1                    Legal Proceedings

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We believe that the outcome of our current litigation will not have a material adverse impact on our business, financial condition and results of operations. However, we could be subsequently named as a defendant in other lawsuits that could adversely affect us.

ITEM 1A                Risk Factors

In addition to the other information set forth in this report, we urge you to carefully consider the factors discussed in Part I, “Item 1A Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2010 which could materially affect our business, financial condition and results of operations. The risks described in our annual report on Form 10-K are not the only risks facing our Company and include additional risks and uncertainties not currently known to us or that we currently deem to be immaterial as of the date of this report on Form 10-Q.

ITEM 2                    Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3                    Defaults Upon Senior Securities

None

ITEM 4                    Removed and Reserved

ITEM 5                    Other Information

None



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADNET, INC.

(Registrant)

Date: May 10, 2011

By: /s/ Howard G. Berger, M.D.

Howard G. Berger, M.D.,  
President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 10, 2011

By: /s/ Mark D. Stolper

Mark D. Stolper  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)

INDEX TO EXHIBITS

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                              |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1*             | Supplemental Indenture, dated as of January 10, 2011, among Image Medical Corporation, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                        |
| 10.2*             | Supplemental Indenture, dated as of January 10, 2011, among eRad, Inc., Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein..                                                                                                                                                                           |
| 10.3*             | Supplemental Indenture, dated as of January 10, 2010, among East Bergen Imaging, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                              |
| 10.4*             | Supplemental Indenture, dated as of January 10, 2011, among Progressive Medical Imaging of Bloomfield, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                        |
| 10.5*             | Supplemental Indenture, dated as of January 10, 2011, among Progressive Medical Imaging of Hackensack, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                        |
| 10.6*             | Supplemental Indenture, dated as of January 10, 2011, among Progressive Medical Imaging of Union City, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                        |
| 10.7*             | Supplemental Indenture, dated as of January 10, 2011, among Progressive X-Ray of Englewood, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                   |
| 10.8*             | Supplemental Indenture, dated as of January 10, 2011, among Progressive X-Ray of Kearney, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                     |
| 10.9*             | Supplemental Indenture, dated as of January 10, 2011, among Imaging On Call, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                                  |
| 10.10*            | Supplemental Indenture, dated as of January 10, 2011, among Advanced NA, LLC, Radnet Management, Inc., RadNet, Inc., U.S. Bank and the other parties named therein.                                                                                                                                                                      |
| 10.11**           | Pledge Supplement, dated as of February 23, 2011, among East Bergen Imaging, LLC, Progressive Medical Imaging of Bloomfield, LLC, Progressive Medical Imaging of Hackensack, LLC, Progressive Medical Imaging of Union City, LLC, Progressive X-Ray of Englewood, LLC, Progressive X-Ray of Kearney, LLC, Imaging On Call, LLC, Advanced |

NA, LLC and Advanced Radiology, LLC.

- 10.12\*\* Counterpart Agreement, dated as of February 23, 2011, among East Bergen Imaging, LLC, Progressive Medical Imaging of Bloomfield, LLC, Progressive Medical Imaging of Hackensack, LLC, Progressive Medical Imaging of Union City, LLC, Progressive X-Ray of Englewood, LLC, Progressive X-Ray of Kearney, LLC, Imaging On Call, LLC, Advanced NA, LLC, Advanced Radiology, LLC and Barclays Bank PLC.
- 10.13\*\* Allonge to Intercompany Note, dated as of February 23, 2011, among East Bergen Imaging, LLC, Progressive Medical Imaging of Bloomfield, LLC, Progressive Medical Imaging of Hackensack, LLC, Progressive Medical Imaging of Union City, LLC, Progressive X-Ray of Englewood, LLC, Progressive X-Ray of Kearney, LLC, Imaging On Call, LLC, Advanced NA, LLC and Advanced Radiology, LLC.
- 31.1 Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Mark D. Stolper.

---

\* Incorporated by reference to the Form 8-K filed on January 11, 2011.

\*\* Incorporated by reference to the Form 8-K filed on March 1, 2011.